

VZCZCXRO8748  
OO RUEHDBU RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR  
DE RUEHMO #3777 2140250  
ZNY CCCCC ZZH  
O 020250Z AUG 07  
FM AMEMBASSY MOSCOW  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2599  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY  
RUEHSD/MOSCOW POLITICAL COLLECTIVE PRIORITY  
RUEHSA/AMEMBASSY MINSK PRIORITY 5430  
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY  
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L MOSCOW 003777

SIPDIS

SIPDIS

DEPT FOR EUR/RUS WATSON  
DEPT FOR EB/ESC/IEC GALLOGLY AND GAVERICK  
DOE FOR HARBERT/EKIMOFF  
DOC FOR 4321/IEP/EUR/JBROUGHER  
NSC FOR MCKIBBON

E.O. 12958: DECL: 08/01/2017  
TAGS: [ECON](#) [ENRG](#) [EPET](#) [PREL](#) [RS](#)  
SUBJECT: RUSSIA ENERGY: ANOTHER BELARUS GAS STANDOFF

REF: 06 MOSCOW 013174

Classified By: ACTING ECON M/C KATHLEEN DOHERTY. REASONS 1.4 (b/d)

11. (SBU) SUMMARY. In a repeat of the New Year's gas standoff between state-controlled gas monopoly Gazprom and Belarus (reftel), Gazprom issued a press release on August 1 that Beltransgaz (BTG - the Belarusian gas pipeline operator) has been informed that gas deliveries to Belarus would be reduced by 45 percent starting 10:00 AM on August 3 for non-payment of gas debts for the first half of 2007. Belarus missed a July 23 deadline to pay the balance of its gas debt, roughly \$500 million, although the GOB received \$625 million in June from Gazprom as the first of four payments for a 50 percent stake in BTG. END SUMMARY.

.  
BACKGROUND

-----  
.  
12. (SBU) The December 31 agreement that prevented the New Year's gas cutoff included a scheduled increase in gas prices from the \$47/tcm that Belarus paid in 2006 to \$100/tcm in 2007 (reftel). Gazprom delivers about 20 bcm/year to Belarus. Gazprom agreed to a transitional phase to lessen the impact of higher gas prices on the Belarusian economy by allowing the GOB to pay about half of its gas bill for the first half of 2007 in cash and pay the balance, or roughly \$500 million, by July 23. When the GOB missed this deadline, they began negotiations for a loan from the GOR.

.  
13. (SBU) Another part of the New Year settlement was an agreement by the GOB to sell 50 percent of BTG to Gazprom for \$2.5 billion. This was a GOB concession in exchange for Gazprom's agreement to a gradual increase of gas prices instead of an all-at-once increase. Gazprom finalized the terms of its BTG purchase with the Belarusian Property Committee on May 18 with Gazprom paying \$625 million annually for a 12.5 percent stake until 2010 when its stake would reach 50 percent. The press reports that Gazprom made its first \$625 million payment in June.

.  
14. (SBU) On July 30, press reports indicate that PM Fradkov and Belarusian PM Sidorskiy failed to reach agreement on a \$1.5 billion loan. Belarus is seeking a loan significantly greater than its current debt at preferential rates from Russia. Finance Minister Kudrin has said that agreement on the loan has been reached in principle, but the crux of the disagreement falls on the terms, according to press reports.

.  
COMMENT  
-----

.  
[15](#). (C) As they did this past winter, the two sides will probably come to agreement on mutually acceptable terms at the last minute. Since Gazprom paid the first tranche of its payment for BTG in June, which is more than enough to cover the balance of its gas debt for the first half of 2007, the GOB could find it difficult to sell the argument that it does not have the cash to pay for the gas. On the terms of the loan that GOB is seeking, the GOR is probably unwilling to provide preferential rates to Lukashenko on a loan, which would just constitute replacing the gas subsidy with a loan subsidy. Gazprom may try to leverage the debt for an accelerated transfer of BTG's 50 percent stake.

.  
[16](#). (C) Should negotiations on the loan spiral out of control and a gas reduction actually does occur on August 3, the scenario would probably play out as we outlined it last December (reftel). A Russian decision to reduce the pressure through BTG could lead to a Belarusian decision to siphon off gas destined for Germany, Latvia, and Poland. In contrast to the December scenario, the lower summer demand for gas would probably lessen any impact that a gas supply reduction would have on Gazprom's European consumers. END COMMENT.  
RUSSELL